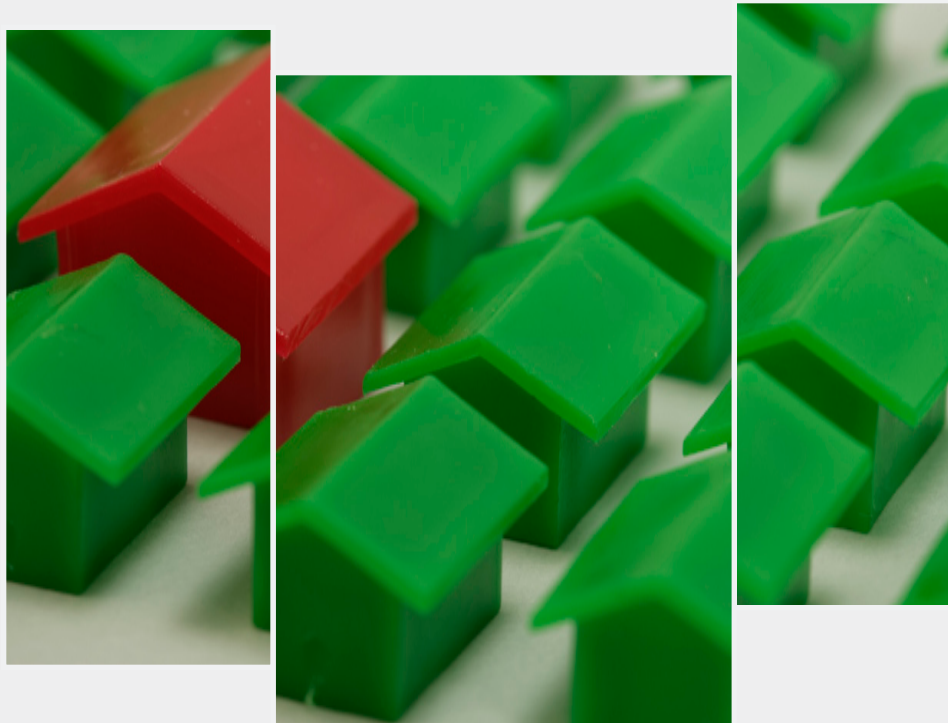


Paragon's Top 10 Ways to Address
Real Estate Market Shifts



The Best Thinking in **Relocation**SM

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Many articles have been written recently reflecting sentiments of real estate challenges reminiscent of the painful 1980s as those who experienced the 80s in this industry are asking “Is this déjà vu?” Today, the opportunities include training both service providers and corporate relocation program managers who did not experience those challenges. This training should focus on the importance of closely monitoring buyer behaviors, regularly reviewing home selling strategies and creating proactive solutions to manage associated costs. Recent shifts in the economy have started to impact relocation benefits, particularly homesale programs, a key service to an efficient and timely move process. Human Resource (HR) professionals and their mobility partners have an important task ahead of them: to establish expectations within a fluctuating market for not only the relocating employee base, but for upper management on projected costs and pricing. The following provides Paragon's Top 10 recommendations to address real estate market shifts and to invoke proactive measures with our most valued business partners – existing and potential clients.

1 Increased Selling Agent Commission/Follow-up/Action

Offering an increased commission to the selling agent may result in more showings than one with a standard commission split. This incentive should stipulate that payment is made at the time of a successful closing with the additional commission payment being made to the actual selling agent, not the real estate brokerage holding the agent's license. The relocation provider's account management team will be instrumental in helping client organizations assess the effectiveness of this incentive when reviewing all factors key to a successful marketing strategy.

It is always important to view inventory following a reasonable time on the market and if a purchaser is not found within the average marketing time for

an area (as determined by the BMA and/or appraisal process, if applicable). After every change in market strategy, desired results should become evident, either in the increased number of showings or offers made by potential purchasers. “That which gets measured produces results” and keeping the inventory home ahead of the market is paramount.

2 Price Reductions & Buyer Incentives

If a home is not sold to a buyer during the marketing process, it is possible that the market may have changed between the initial listing period and the time a property enters inventory. In such situations, the most aggressive strategy may include an immediate price reduction to less than the Guaranteed Buyout Offer (GBO). New information based on comparable sales

Paragon's Top 10 Ways to Address Real Estate Market Shifts

in the immediate area, as well as new influences that could affect a housing market (e.g. group moves, plant closings/layoffs), may reveal challenges that were unknown when the employee was marketing the home. Although not yet proven with statistical research, the first offer presented often, in retrospect, proves to be the best offer made on a property. If a property is in mint condition and all other obstacles have been removed, the key remaining element to be the next property to sell in an area may be aggressive pricing. If this is the case, corporations should review the monthly carrying costs in comparison to current pricing to determine an effective pricing strategy.

If the value of a home is in a first-time buyer's range or is in competition with new construction, offering to pay incentives, such as a portion of the buyer's purchase closing costs, may make the difference in the marketing time since these benefits appeal to potential buyers with less operating cash. Corporations should closely scrutinize competing properties and incentives in order to target the potential buyer profile. In addition, it is also recommended to cap the incentive at a fixed dollar amount in order to calculate the anticipated total cost to the client when a buyer is found.

With higher priced homes, incentives remain attractive to buyers as an allowance for landscaping, decorating, upgraded appliances, and points/closing costs. In most cases on homes that exceed \$200,000 in value, the offer of a "Buyer's Preference" incentive allows the listing agent to market all the possibilities.

There are other options to consider such as special occasion open houses, staging a vacant property

with partial furnishings and plants, decorating for the holiday season to add warmth to the showings, offering mortgage subsidies, etc. As winter approaches, more aggressive measures are often entertained as the costs to maintain a property during the winter months may be costly, especially when buyer activity is slow.

3 Inventory Properties

Once a home enters inventory, time is of the essence. Regular communication, development of a 30-, 60-, 90-day selling strategy and choice of a top real estate partner familiar with "outside the box" marketing tactics are critical elements to a successful and lower cost homesale transaction. Vacant homes, often associated with a relocation property, must positively stand out from all the competition. This is especially true of new construction in the area where builder incentives create buyer concessions that are not offered on most existing home sales. When this type of competition is present, a corporation should partner with its relocation management company to begin the marketing process prior to acquiring the property. An updated BMA should be obtained approximately ten days prior to the anticipated acceptance date to bring understanding of current market conditions and allow time to modify the list price as necessary immediately upon acceptance. Past observation reveals that a home will pique potential purchasers' interest within the first 30 days of listing.

Enhancing the appearance of a home is the single most effective method of attracting a buyer. Based on input from the agent, marketing notes obtained during

Paragon's Top 10 Ways to Address Real Estate Market Shifts

the pre-marketing period and review of photographs obtained from the agent and/or the appraiser (if applicable), companies should address the condition of a home immediately and obtain timely estimates for work to be completed on the property. If done expediently and correctly, this is the single most effective tool to use for gaining a sale.

4 Mortgage Subsidy

Within ERC (Employee Relocation Council) member organizations, 55% report experiencing “major” or “moderate” difficulty in transferring employees to high cost-of-living areas. Of those, 59% noted high housing costs as a problem. One-third of respondents said that a mortgage subsidy program was one of the most significant changes that they incorporated into their policy in the past year. The qualifying areas are defined by using an index that will substantiate a difference in cost of housing on a percentage basis. To pinpoint these locations, the relocation provider can review the client’s historical move patterns and facilitate development of a guideline designed for consistency in qualifying eligibility and to avoid potential discriminatory practices.

Utilizing a mortgage subsidy, the company pays a portion of the mortgage interest directly to the lender on the employee’s behalf. The lending institution bills the company annually for the year’s subsidy amount. There is typically no tax gross-up since payments will be offset by the full mortgage note interest rate deduction taken annually by the employee. A program

can be structured in various ways to fit within a company’s corporate culture and relocation budget. For example, mortgage buy-downs allow the employee to qualify for a larger mortgage to offset the higher cost of housing in the new location.

5 Temporary Living Lump Sum

The current average temporary living stay across all industries is 60 days for homeowners and 30 days for renters. The majority of Paragon’s clients also factor in standard cost-of-living areas versus high cost-of-living areas when determining the employee’s allowance. The following locations have been consistently noted as high-cost areas for the past 20 years. These include:

- Boston (within 30 miles of city center)
- Honolulu metropolitan area
- Metropolitan New York City, (within 75 miles) including New Jersey and Connecticut
- San Francisco Bay Area
- Southern California (Orange, Los Angeles, Ventura, San Diego, and Santa Barbara counties)
- Metropolitan Washington, D.C. (within 50 miles of city center)
- Metropolitan Chicago (within 30 miles of city center)

Companies may want to consider adding a high cost area provision to meet the needs of transferring employees in today’s real estate market. Based on current analysis of our clients’ existing spending patterns, along

Paragon's Top 10 Ways to Address Real Estate Market Shifts

with research of average transportation costs and per diems through various government resources, high-cost area provisions are on average 20% higher than standard provisions.

6 Loss on Sale Protection and Duplicate Housing

Based on declining real estate values, the potential for employees to incur a loss on the sale of their homes is higher than it has been in many years. As a result, corporations should consider including a Loss on Sale provision in their relocation policy. While an organization may balk at including such a provision in the policy, including a formal guideline avoids the potential for individual employee negotiations if a company requested relocation results in an employee's final sales price falling below the original base purchase price. A Loss on Sale policy should include the following clarifications for eligibility:

1. The employee must market the home by a strategy approved by the company, adequately maintain the home, not contribute to the loss in value of the home, and sell the home at a price within the policy parameters.
2. If the home comes into inventory and the guaranteed offer is less than the original base price, the company will reimburse up to a maximum percentage of the original purchase price, not to exceed a specified dollar cap. These parameters should be established by the company and consistently administered.

In an effort to reduce the company's exposure, consideration should be given to developing policy that discourages the purchase of new construction within the final build-out phase of a development to help avoid short-term loss-on-sale concerns. Situations like these often result in individual sellers competing with builders who offer deep discounts on spec homes. In addition, builders may also pay other incentives such as purchasing closing costs and upgrades to a property to expedite a sale.

For executive tier moves during this current market shift, if the employee purchases a home in the new location prior to final disposition in the origin city, a company should consider providing duplicate housing for 30 days. This benefit allows additional support for the employee to continue marketing their home and should incorporate a review of the list price and other market factors to optimize potential for an offer.

7 Homesale Incentive/Bonus

Given the perceived market conditions and the suggested delay to the appraisal process, companies should consider linking an employee incentive to the marketing time. Using a homesale bonus based on a sliding scale can act as an incentive to the employee to think assertively. The bonus is paid to the employee after executing a Contract of Sale with the service provider, completion of a successful closing with the purchaser and is typically viewed as income with applicable taxes withheld at time of payment. The company can offer a homesale bonus of 2% of the

Paragon's Top 10 Ways to Address Real Estate Market Shifts

contracted sales price if an offer is received within the first 30 days of the listing period, 1% if sold within the second 60 days, remaining at 1% through the expiration of the offer period. This benefit may also include the stipulation that the list price does not exceed 105% of the average of the two BMAs and is adjusted to 105% of the GBO once the offer amount is confirmed. By establishing parameters and incentives to entice the employee to sell to an outside buyer rather than rely on the GBO, companies can realize savings in the long run.

8 Delayed Appraisal Process and the Guaranteed Buyout Option (GBO)

In a healthy real estate market when supply and demand are balanced, some corporations have included a delayed appraisal process to allow the employee time to actively list and market a home in hopes of producing an Amended Sale. According to a recent Runzheimer survey, 54% of companies mandate their employees to market their home for 60 days prior to accepting the GBO.

Corporate programs should consider two modifications to the GBO program:

1. After the home is listed for 30 days, begin the appraisal/inspection process; and
2. Shorten the acceptance period to 30 days from issuance of the GBO to the employee (approximately 90 days total).

Once the employee has actively marketed the home for the required period, not to exceed 90 days total,

the employee may accept the offer. If the market is experiencing any level of decline, removing the employee from the selling process allows the relocation provider and the client to swiftly develop a strategy to market the home with more objectivity and drive a sale reflective of lower costs to complete the transaction. Coupled with a homesale incentive bonus, a shortened appraisal process encourages the employee to actively participate in the selling process and realize a return for their efforts. If a property enters into inventory, this strategy will help reduce chances of it being “shop worn.”

9 Buyer Value Option (BVO) Considerations

During the past decade, BVO programs have produced successful results with lower costs to the client. When the employee has marketed their home, provided the home is priced within the market and is in top showing condition, homes have sold within the first 90 days of listing the majority of the time. As markets soften, correct and/or decline with the varying geographics, client corporations should consider a “sunset clause” for a GBO at some time of the BVO process. Two key reasons for this implication:

1. An employee's move is not complete until they are relieved of the home disposition process and the family is all in one location; and
2. Although not a mandatory procedure according to Revenue Ruling 2005-76, Worldwide ERC's Coalition recommends client organizations provide a GBO at the end of the BVO process in order to operate in the most favorable way to protect the tax

Paragon's Top 10 Ways to Address Real Estate Market Shifts

exempt status of the third party relocation homesale program.

Another consideration for this type of program is to base the offer on a percentage of the appraised value. The same process for determining the value is followed except at the time of offer, an employee is offered, for example, 97% of the appraisal value, resulting in the GBO amount.

Appraised Value \$200,000
GBO at 97% \$194,000

This may allow for an employee to have more incentive earlier in the process and facilitate a change in the strategies for selling a home prior to having to accept a GBO, resulting in an inventory property.

10 Home Marketing Assistance

In a recent survey conducted by Paragon, over 60% of inventory properties were listed with employee-preferred realtors versus those dedicated to relocation. The majority of these listing agents were the same agents that originally sold the homes to the employees and may be more hesitant to reveal the real estate market has shifted from a seller's mentality to a buyer's advantage. As a result, companies should modify their current program to require the home to be listed with a third-party relocation company preferred agent and to require the list price to be capped at 105% of the average of two Broker's Market Analyses (BMA). BMAs typically drive the initial listing price and provide ideas

to develop a marketing strategy as the information reports current comparable sales as well as competing listings. Requiring relocating employees to work with a pre-selected group of suppliers or company-approved brokers ultimately gives the company more point-to-point control over the entire process, which translates into lower program costs.

In addition to a home marketing assistance program, corporations should consider a Market Readiness Allowance. If results of the BMA highlight the need for minor cosmetic repairs, this program enables the employee to make improvements by drawing from an account with a cap agreed to between the client organization and the relocation provider to assist the employee with marketing the home for a quick sale. It has proven true that a home that is accurately priced for the current market and in prime condition experiences a shorter marketing cycle than those that may be overpriced and are in less desirable showing condition.

Paragon's Top 10 Ways to Address Real Estate Market Shifts

In Summary

Paragon is dedicated to learning from past experiences and using that knowledge to prepare front-line relocation consultants for decisive, results-oriented leadership in order to be a solid partner to clients. By restructuring the home marketing strategies, adding homesale incentives, preparing loss protection programs and offering a GBO, companies can maintain a competitive edge and play an active role in keeping homes in inventory to a minimum, while staying even with timely marketing of inventory. There is no “magic formula” for marketing a home out of inventory as every property is unique and demands a customized plan. As such, careful and cautious analysis of each situation will drive more positive results than chasing a downhill market. As market conditions change, thought leadership and approaches must shift and change.

About The Author

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Kathy Trachta is Paragon Relocation Resources' Director, Global Relocation Consulting and has more than 26 years of experience in third party relocation, in-house program, and consulting management for global and domestic programs. Her responsibilities include development and implementation of policies and procedures of client organizations, providing industry benchmarking, and training and orientation programs. As a veteran Senior Certified Relocation Professional (SCRP), Kathy has served as an active member of committees for the Employee Relocation Council and the Texas Relocation Network. In addition, she has authored articles/editorials published in Mobility and National Relocation and Real Estate, and has spoken at various industry conferences and events. Trachta has a bachelor's degree in journalism/public relations from the University of North Texas and formerly owned Creative Resources, Inc., a relocation consulting organization.

About Paragon Relocation Resources

Originally founded as a relocation consulting company in 1987 specializing in domestic and international relocation and global assignment program development consulting, Paragon's mission was to develop cost-effective mobility programs that offered more services to the transferring employee, at less cost to the organization. Today, Paragon maintains an extensive consulting practice focused on global mobility issues in their entirety.

Paragon's Top 10 Ways to Address Real Estate Market Shifts

Glossary

Agent Commission – Payment for services rendered by a broker such as in the sale or purchase of property, usually a percentage of the sale price of the property.

Amended Sale – An amended value sale occurs when an employee who has been offered a guaranteed buyout receives an offer to purchase their home from an outside buyer. This outside offer is reviewed by the relocation company to ensure it is a bona fide offer within the policy guidelines and the offer is then amended to the outside buyer's value. The relocation company will follow the recommended ERC 11-step process, which minimizes tax risk for the employee. This tax minimization is important because it saves the corporation the cost of reimbursing and grossing up the reimbursements.

Broker's Market Analysis – A comparative market analysis or broker's price opinion is an informal estimate of market value, based on comparable sales in the neighborhood, performed by a real estate agent or broker.

Buyer Value Option (BVO) – A buyer value option sale occurs when the employee is not offered a guaranteed buyout until a ready, willing and able buyer makes a bona fide offer on the home. This requirement keeps the costs down and is actually much less costly than reimbursing the employee directly for the realtor fees and closing costs. An added benefit of the BVO is to handle the closing of a sale for an employee so the employee does not have to come back to the old location to attend the closing.

Guaranteed Buyout Option – When a buyer is not found to buy an employee's property, the company will purchase the property so the employee can get on with their new home. The value for the property is usually the average of two appraisals completed by professional, independent appraisers. Because of the high cost of buying a house and having the relocation company resell it, this program is typically offered to executives or to individuals who are necessary to fill a critical position. This program results in tax benefits to the employee and the company because under IRS Revenue Ruling 72-339, the costs are born by the relocation company/ employer and therefore are not reportable or taxable to the employee.

Home Marketing Assistance – A systematic service designed to assist the employee with selling the property during a designated marketing period. Objective professional guidance is provided by a relocation professional.

Homesale Program – Provides relocation benefits to assist qualified employees with the sale of their present home. Services may include home marketing assistance, third party homesale, amended value or assigned sale transactions and self-sale (direct reimbursement) of homesale expenses.

Loss on Sale Protection – A protection companies can use in instances where an employee's home is unable to sell, the employee then accepts the GBO at a loss from the original base price paid and the home goes into inventory.

Paragon's Top 10 Ways to Address Real Estate Market Shifts

Market Readiness Allowance – A program that allows the employee to make improvements to the home by drawing from an account with a cap agreed to between the client organization and the relocation company to assist the employee with marketing the home for a timely sale.

Mortgage Subsidy – The payment of points over a specified time period to secure a mortgage at below market rates.

Mortgage Buydown – A payment to the lender from the seller, buyer, third party, or some combination of these, that causes the lender to reduce the interest rate during the early years of the loan.

Spec Home – A newly constructed home built on speculation that a ready, willing and able buyer may purchase for a more expedient move-in timeframe in lieu of contracting to build from the ground up. Spec homes are typically constructed by a builder who desires to have newly constructed inventory homes for a shorter selling/closing cycle.

